Monthly Review

Federal Reserve Bank of Boston

June 1954

UNCONTROLLED DESTRUCTION. (U.S. Forest Service photo, courtesy of American Forest Products Industries, Inc.)

The Challenge of Forest Fire Insurance

If the use of forest fire insurance can reduce forest property owners' risks and induce improved forestry management, it will contribute materially to the national welfare. The moderate extent of forest fire loss in much of the nation appears favorable to wider application of the insurance principle as a means of abating risk in forestry enterprise. Because the prospects of success are improved when insurance is spread over a large aggregation of property value and a wide geographical range, this article reports on the whole of continental United States. The findings nevertheless have direct bearing on the economics of forestry and the forest industries in New England.

WHETHER THE husbandry of our forest and timber resources is good or bad depends largely on the decisions of private owners. In New England private owners hold 95 per cent of the commercial forest land and the same percentage of the saw timber. Nearly 60 per cent of the saw timber and three-quarters of the commercial forest land in the United States are privately owned.

Almost four and a quarter million private owners hold an average of 81 acres to make up a total of more than 340 million acres of commercial forest land in the United States. The aggregate value of the timber and wood as it stands on these properties can be conservatively estimated at more than $10 billion. Although the value of the average individual property is only about $2,500, some single ownerships run into the millions.

The 29 million acres of privately-owned commercial forest land in New England is divided among almost 244,000 separate holdings with an average size of 120 acres. There are only about 200 ownerships of more than 5,000 acres each, of which 45 are in excess of 50,000 acres, but these larger holdings embrace 40 per cent of the forested area. The Great Northern Paper Company and the Pingree Estate, in Maine, are examples of the more extensive ownerships. The value of the standing timber and wood on New England's commercial forest area has been estimated to be in excess of $500 million. The average value per property is only about $2,000; but if the value distribution is in proportion to the area distribution, the 200 larger ownerships have an average value of more than one million dollars. Some are worth much more than this and it is obvious that the number of individual properties with values many times the average must be substantial. A similar situation exists in the nation as a whole.

It is reasonable to expect the owners of these forest properties to undertake programs of modern improved forest management — the growing of timber as a commercial enterprise — only when they can do so with a justifiable expectation that the financial return will be in line with the benefits they can obtain from other uses of capital, management, and labor, with full consideration of the involved risks. Some of the risks incurred by private forest enterprise — particularly excessive taxation — have been discussed in previous issues of the *Monthly Review*.[1] The purpose of this article is to take a look at the physical risks that forestry enterprise faces, particularly the fire risk, and the possibility of abating this risk through application of the insurance principle.

Forestry enterprise differs, in this physical risk aspect, from practically all other private business undertakings. Insurance against possible loss from the common perils, particularly fire, is a widespread practice in most businesses. It is extremely rare in the forestry business. It is not necessary to look far for an explanation of this phenomenon.

A super-abundance of virgin forests, from which lumber and wood supplies could be had practically for the taking, surrounded the early settlers. Little thought was given to forest preservation or the future supply of forest products. If fire ran wild in the wood-

[1] *Monthly Review*, June and August, 1949; February, 1952.

ALSO IN THIS ISSUE:

Trust Department Net Earnings Decline in 1953 4
Demand Deposits Rise Slowly 6
Business Charts 8

lands, nobody cared particularly. This attitude toward the forests began to change during the last quarter of the 19th Century as the realization dawned that they might not, after all, be inexhaustible.

Protection Cuts Forest Fire Losses

The forest fire protection effort began in a small way about 50 years ago. Since then it has spread over all but a small part of the nation. Nearly a quarter of a million dollars was expended in 1912 to provide protection on an area of 61 million acres of forest land owned privately or by the states. By 1952 the protected area had increased to nearly 369 million acres and the annual financial outlay by individuals and state and federal governments amounted to nearly $36 million, not quite 10 cents per acre protected. In addition, local governments and private owners and operators made capital outlays for forest fire equipment and improvements totaling more than $16 million.

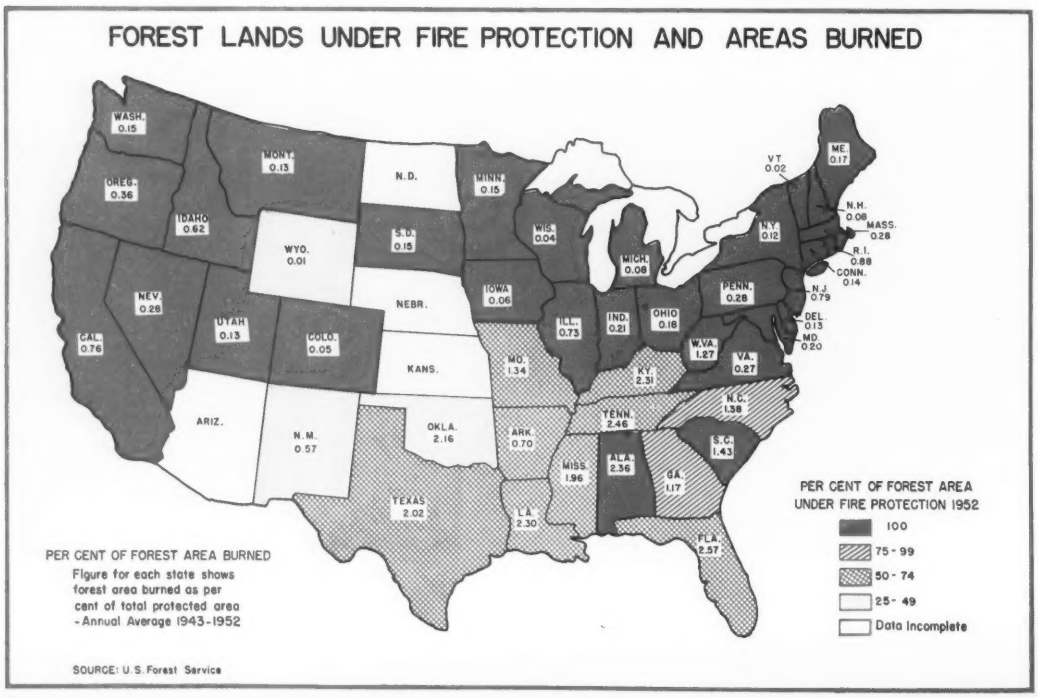
How effective is forest fire protection in New England and the nation? Is it really getting results from its efforts to curb the ravages of forest fires? Two accompanying charts indicate that substantial gains have been made. The first chart shows that all of the private and state-owned forest areas of 31 states, mainly in the North and West, were under organized protection in 1952. In 13 states, mainly in the South, areas protected ran between 34 and 92 per cent of the total. Data are incomplete in four states where little privately-owned forest land exists. This chart also shows that, during the 10-year period 1943 to 1952, the average area burned annually on these protected lands varied between a low of 0.01 per cent in Wyoming and a high of 2.57 per cent in Florida.

Although both the best and poorest records were established in states where fire protection is incomplete, this evidence is not conclusive, particularly with respect to Wyoming's excellent record. The effectiveness of the protection is an important factor but other influences, favorable or unfavorable, take effect. The combination of these other effects is favorable to small fire damage in Wyoming; Florida is among the states where they are at their worst. Looking at all the states in combination provides more readily credible evidence.

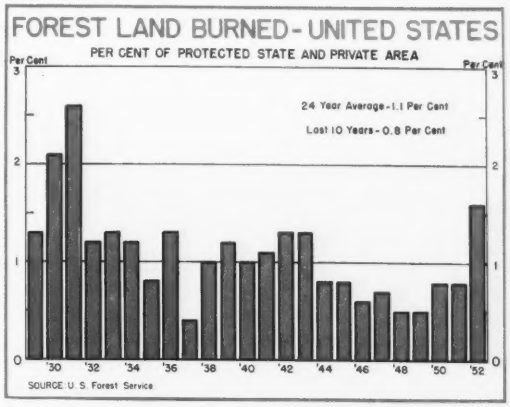
During the observed 10-year period, the average area burned annually was 0.47 per cent of the total area protected in the 31 states where full protection was provided. In the 13 states where only partial protection was afforded, the average area burned, on the protected portion, was 1.65 per cent, three and one half times as great. The purpose of these comments is merely to show the extent to which the forest fire menace is being held down in a large portion of the United States.

The second chart shows that organized forest fire protection is gradually getting better results. The average area burned annually on protected state and private lands was 1.1 per cent during the latest 24 years for which data are available — 1929 to 1952. During the first eight years of this period the annual average was 1.5 per cent. During the second eight years it dropped to 1.0 per cent and, for the last eight years of the 24-year period, to 0.8 per cent — only slightly more than half the percentage burned during the first eight years.

The area burned in an average year provides an important indication of the long-term trend of forest fire damage. But it is an unreliable indicator, in any one year, of the damage ratio in financial terms. An exhaustive study of forest fire losses, conducted some



years ago[2], showed that the ratio of financial loss to total forest property values is a lower figure than the ratio of area burned to total area. Forest fires do not consume living trees. They often kill them, but the retention of salvable value is a general rule. Some fires burn lightly and cause slight or even no damage to timber of marketable size. The recorded area burned frequently includes recently-cut land or land bearing only worthless scrub and brush. On the other hand, forest fires are sometimes "crown" fires that kill all the trees they touch. If the killed timber is below usable size, all the value it possesses is lost. Salvage is not possible as is the case with killed timber of marketable size. Salvage was an important factor, for example, after the Tillamook conflagration of 1933 in Oregon and the conflagration in Maine in 1947. In both cases the net loss was substantially below the gross figure indicated by the quantity of timber killed.



Measurement of Financial Loss

It is possible, by combining the statistics from a large number of burned areas, to derive averages which indicate the general relationship between area burned and financial loss. The 1939 study of forest fire losses in the northeastern states showed that average annual losses were $775,000 on a total value at risk of $573 million. This is 0.13 per cent — 13 cents per $100 of value. The ratio of area burned to total area during the same period was 0.42 per cent. These area figures correspond to those presented in the charts which show a ratio of area burned in the United States between 1929 and 1952 of 1.1 per cent and, between 1943 and 1952, of 0.8 per cent.

During the most recently-recorded 10-year period, the loss in value on the protected state and private lands in the nation was 0.25 per cent — 25 cents per $100 of total value exposed to fire. These are national figures including the states in the South. In many individual states the annual financial loss expectation based on the record is much less than this. For example, it is one cent per $100 in Wisconsin, a heavily-forested state. In Washington and New York it is four cents. In New England as a whole the financial loss expectation is five cents for each $100 of forest land. At the top extreme, if the principle holds true, it is 80 cents in Florida. All of these figures are state-wide figures. Significant and measurable variations occur within the states.

The 1939 bulletin mentioned above reports on a detailed town-by-town study of Massachusetts. That state had an average annual area burned, during the 1943-52 decade, of 0.28 per cent. Its value loss expectancy is thus nine cents per $100 per year. The 1939 study revealed the fact that forest fires tend to form a consistent pattern over the years and that towns in which loss expectancies are high can be quite readily identified. These are the towns which, according to the record, have more fires, or larger ones, or both, than do the other towns. The greater portion of the area burned during a period of years tends to be concentrated on Cape Cod and in 32 other towns. In the other 319 forested towns, the forest area burned annually falls far below the state average. This finding is significant because it indicates that, in the nation as a whole, forest fire loss probabilities on extensive areas are lower than the state averages indicate.

How does the forest fire loss probability affect the prospects of the application of the insurance principle to forest fire losses in the nation? The above figures provide a basis for dividing the country into two general zones — one where forest fire losses are relatively low and one where they are relatively high. Broadly speaking, losses are low in the North and West and high in the South. This makes it more logical to look at the North and West for opportunities for initial application of the insurance principle. If aggregate losses are low, insurance premium rates can be low. Low premium rates favor prospects of success. If they are high and appear likely to absorb an excessive proportion of gross earnings, the owners will tend to avoid buying insurance.

The analysis shows, though, that there is, in the North and West, an aggregate forest value of nearly six billion dollars on almost 200 million acres under full, organized forest fire protection. The average over-all loss expectancy is 0.26 per cent per year on the area basis — eight cents per $100 of value. With the probability that loss expectancies are less than these on many individual properties, the possibility of offering insurance at prices the owners would be willing to pay seems great. Furthermore, the aggregate value and geographical spread appear sufficient to fulfill the needs of practical and sound insurance underwriting.

Why, if underwriting conditions are as favorable as they appear, is the insurance principle not being more widely applied to forest fire loss? History provides a possible answer. Attitudes and practices of insurance organizations and forest owners continue to be colored by the memory of many years of unfortunate experience. The anti-forest fire public education program may have some adverse influence.

Forest fire insurance has been a subject of discussion and study for more than 30 years but, so far, no insurance organization has made a vigorous effort to develop the business as more than what they call an "accommodation" line. Forest owners have largely reconciled themselves to its absence, perhaps because of the impression that premium rates would be too high anyway.

The figures nevertheless provide evidence that an opportunity exists for a new pioneer undertaking in the

[2]Forest Fire Insurance in the Pacific Coast States and Forest Fire Insurance in the Northeastern States. U.S. Department of Agriculture Technical Bulletins 551 and 651, 1937 and 1939, Washington, D. C.

business of forest fire insurance. Such a business, wisely and effectively undertaken, should find many thousands of prospective customers among timber owners engaging in forestry enterprise. Elimination or reduction of the fire risk would bring them positive benefits.

Some fire insurance company executives have expressed doubt that an effective demand for forest fire insurance exists. It may very likely be true that demand will remain substantially ineffective until premium rates are brought down to levels proportionate with prospective earnings. More importantly, it may be that the owners have reasonably accurate knowledge of what their fire risks really are and that they will not buy insurance until the cost becomes a close measure of them.

Designing and promoting a system of widespread forest fire insurance will not be a simple undertaking. There must be differential rating schedules by which a specific rate is tailored to the individual property being insured. Flat, or average, rates will not work because they are attractive only to the owners of properties where the risk is higher than the average. Use of them would soon bankrupt the insurance carrier. Premium rates must allow for possible inaccuracies in the data and the interpretation of them and for adverse selection of risks — the insured portion may not be a perfect sample of the whole. They must allow for accumulation of reserves against conflagrations, other contingent hazards, and the unknown factors.

Underwriting Procedures

Policy forms must include the essential protective clauses — protecting both the insurer and the insured. There must be agreement on coinsurance and deductible requirements. Full indemnity may not be advisable, particularly at the start. Provision should be made for types of policies attractive to large owners who are self-insurers against ordinary fires.

A standard system for grading protection organizations would be indispensable following the general pattern by which cities and towns are graded according to the effectiveness of their fire and police departments, their water supplies, hydrant systems, and other protective facilities.

The insurance of forest properties against fire damage might well be patterned after the practices applied to the insurance of buildings and stocks of goods. Accurate indemnification of the insured's real financial loss, in compliance with the terms of the policy, should be the objective. There do not appear to be any insurmountable obstacles in the way toward this objective.

The evidence indicates that forest fire insurance offers the established fire insurance organizations, stock and mutual, an opportunity for business expansion in the United States. Fire insurance, whether provided by the established organizations or by new carriers formed by the forest owners themselves, has the capacity of conferring positive benefits on the business of growing timber and wood for the market.

Fire insurance would not eliminate all the physical risks that timber growing incurs. The risk of loss from tree disease and insect epidemics, wind, and other agents of destruction would remain. Systems of insurance against these risks might follow the firm and successful establishment of insurance against fire.

Trust Department Net Earnings Decline in 1953

AGGREGATE NET EARNINGS of trust departments at New England banks declined by six per cent during 1953, according to replies from 51 banks which reported comparable data on their trust department activities for both 1952 and 1953. Trust department gross income of these institutions rose seven per cent during 1953, but total costs increased more rapidly, by nine per cent. Although aggregate net earnings declined six per cent from the 1952 level, 25 banks increased their trust department net earnings. An accompanying table gives a breakdown of the number of banks, according to size of trust department, showing increases in gross income, total costs, and net earnings.

NUMBER OF BANKS REPORTING INCREASES IN TRUST DEPARTMENT GROSS INCOME, TOTAL COSTS AND NET EARNINGS, 1952 TO 1953

	Trust Department gross income of	Number of banks	Number of banks showing increases in:		
			Gross Income	Total Costs	Net Earnings
Group I	Over $500,000	9	8	9	4
Group II	$200,000-$500,000	8	8	8	4
Group III	$100,000-$200,000	11	11	11	10
Group IV	$50,000-$100,000	9	4	6	1
Group V	$20,000-$50,000	14	5	10	6
TOTAL		**51**	**36**	**44**	**25**

Source: Federal Reserve Bank of Boston.

Income and Expense

Fifty-five New England banks supplied 1953 data on trust department income and expense. They held assets in their trust accounts valued on their books at over $6.8 billion, and had aggregate trust department gross income of $19.6 million.

The average trust department received 51 per cent of its total operating income from personal trusts and guardianships, 22 per cent from estates, 22 per cent from personal agencies, and five per cent from corporate accounts during 1953. Estates figured more prominently as a source of income for the smaller banks, while corporate accounts were relatively more important for the larger trust departments.

Thirty-six of the 55 reporting banks showed a profit on their 1953 trust department operations. The average net earnings-to-gross income ratio was 5.1 per cent. Losses were incurred more frequently by smaller banks than by larger ones. From year to year the larger trust departments tend to register steadier, less spectacular net earnings-to-gross income ratios. The profit positions of smaller trust departments are seriously affected by gains or losses of a few accounts.

In an accompanying table, individual expense items are expressed as a percentage of total expenses before

overhead. Averages are presented for all banks, and for banks in selected size groupings.

Personnel expenses made up three-fourths of direct operating expenses in the average trust department. Total salary and wage payments averaged 68.7 per cent of all expenses before overhead, and bore no close relationship to size of trust department gross income. Officers' salaries, however, were relatively more important in the trust departments of smaller banks than in the larger ones.

In previous surveys, information on trust department contributions to funded pension plans "for future service" was collected. In the 1953 survey, data was also collected on direct wage and salary payments made to retired employees "for past service." Aggregate pension costs averaged 3.5 per cent of direct operating costs. Forty-one of the 55 reporting banks had expenses connected with funded pension plans, and 22 banks made direct salary payments to retired trust department employees.

Contributions to social security programs constituted a somewhat higher percentage of total expenses before overhead at larger banks than in the smaller trust departments, reflecting the fact that employees' salaries and wages were relatively more important than officers' remuneration in the larger trust departments. Personnel insurance, including life insurance premiums, medical insurance, and fidelity bonds, averaged 1.4 per cent of direct operating costs.

Expenses pertaining to the occupancy and use of quarters averaged 7.5 per cent of total expenses before overhead, and exhibited no relationship to size of trust department gross income. Furniture and equipment expenditures averaged 2.1 per cent of direct operating costs, and were relatively more important in large trust departments than in smaller ones, because of the greater mechanization of large banks' operations.

Communication expenses bore no apparent relationship to size of bank. Special services, such as advertising, information services, legal fees, directors' and trust committee's fees, were relatively more important in the cost calculations of smaller trust departments than larger ones, reflecting the existence of minimum requirements for these services.

Overhead must be added to direct operating costs to accurately appraise the total cost of operating a trust department. Eighteen banks estimated overhead as 15 per cent of direct operating costs. Thirty banks computed overhead by more detailed cost accounting procedures. For 48 banks which made separate allocations, overhead averaged 14.9 per cent of direct operating expenses.

Personal and Corporate Accounts

Forty-one banks reported a detailed analysis of their personal trust activities. Their average net earnings-to-gross income ratio on personal accounts was 5.2 per cent, and 25 banks made a profit on this type of business. The average net earnings-to-gross income ratio on corporate trust accounts was 15 per cent for the eight banks which furnished this information. Five of the eight showed a profit.

Expenses incurred in the handling of personal accounts followed fairly closely the percentage distribution for all trust department accounts. In the corporate trust breakdown, officers' salaries made up 21.6 per cent of direct operating expenses, while employees' salaries constituted 50 per cent. Furniture and equipment costs were twice as large, relatively, for corporate accounts as for personal accounts, while charges for special services, such as advertising, were negligible in the corporate sphere. Corporate trust business, especially when handled in substantial volume, involves a high degree of mechanization and the utilization of a large clerical force.

TRUST DEPARTMENT EXPENSES OF 55 N. E. BANKS IN 1953

Percentage Distribution by Size of Trust Department Income

Trust Department Expense Item	Trust Department Income (In thousands of dollars)					
	Over $500 (9 Banks)	$200 to $500 (10 Banks)	$100 to $199 (12 Banks)**	$50 to $99 (10 Banks)	Under $50 (14 Banks)	All Banks
	Percentage of Total Expenses Before Overhead					
Total Salaries and Wages	**67.0**	**69.2**	**67.0**	**67.8**	**69.7**	**68.7**
Officers	26.2	34.1	35.5	36.2	41.0	35.5
All Others	40.9	35.1	31.5	31.6	28.7	33.2
Total Pensions and Retirement	**5.4**	**4.5**	**3.9**	**2.1**	**2.7**	**3.5**
"For Future Service"	4.1	3.9	2.7	1.9	1.6	2.7
"For Past Service"	1.3	0.5	1.2	0.1	1.1	0.8
Social Security Programs	1.9	1.8	1.7	1.3	1.4	1.6
Personnel Insurance	1.8	1.1	1.3	1.2	1.6	1.4
Total Personnel Expenses	**76.1**	**76.6**	**73.9**	**72.4**	**75.4**	**75.2**
Occupancy of Quarters	7.1	7.5	8.9	8.1	7.3	7.5
Furniture and Equipment	3.8	2.3	2.7	2.1	0.7	2.1
Postage and Supplies	3.8	3.1	3.3	3.9	2.8	3.3
Telephone and Telegraph	1.1	1.3	1.1	1.4	1.1	1.2
Advertising	1.7	1.9	2.4	3.2	2.5	2.4
Directors' Fees	0.8	1.7	1.8	2.0	1.5	1.6
Legal Fees	0.4	0.8	0.4	0.9	1.5	0.9
Information Services	1.6	1.2	1.8	2.3	3.7	2.2
Examinations	0.5	0.9	1.1	1.7	2.2	1.4
Miscellaneous Expenses	3.1	2.7	2.7	2.1	1.4	2.4
Total Expenses Before Overhead and Income Taxes*	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Overhead	16.7	12.7	11.7	18.4	14.6	14.9

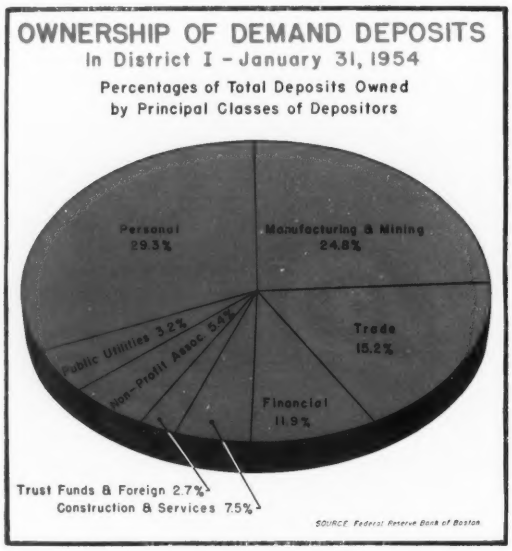
*Details do not add to 100 in all cases because of the averaging technique used and because of rounding.
**Average of per cent figures for the 8 banks in this group which reported overhead separately.
Source: Federal Reserve Bank of Boston.

Monthly Review
FEDERAL RESERVE BANK OF BOSTON

Demand Deposits Rise Slowly

DEMAND DEPOSITS owned by individuals, partnerships, and corporations at commercial banks in the First Federal Reserve District totaled an estimated $4,723 million on January 31, 1954, an increase of $45 million or approximately one per cent from the total on January 31, 1953.[1] The increase of one per cent during 1953 contrasts with a rise of two per cent during 1952, and an increase of six per cent during both 1951 and 1950. While District depositors increased their balances, they also used their deposit accounts more intensively. Aggregate debits at banks in 22 District reporting centers were five per cent higher in 1953 than in 1952.

The 1954 survey of District demand deposits was based on a revised sampling procedure. A larger number of banks was included and a sample of small accounts was tabulated. The new reporting techniques have improved the accuracy of the 1954 estimates of deposit totals by class of owner, and have also provided information on the distribution of accounts by size, within four size groups of banks, and the average size of account, by class of owner. The change in reporting procedure has, however, somewhat affected the accuracy of year-to-year comparisons of deposit ownership by class of owner.



The new pattern of demand deposit ownership can be observed in an accompanying chart. The improved sampling of smaller accounts this year indicates that there may have been some understatement in previous surveys of the relative importance of personal accounts, non-profit associations, and service and construction firms, and overstatement of the relative position of industrial concerns, trade businesses, and financial enterprises. Year-to-year changes of deposit totals by class of owner cannot therefore be interpreted purely in economic terms.

Deposits of manufacturing and mining concerns totaled $1,170 million on January 31, 1954, or 24.8 per cent of District dollar totals. Public utilities' deposits were estimated at $151 million, or 3.2 per cent of deposit totals for the District. Both of these groups experienced contraction of their deposit dollar volume during 1953. The declines during 1953 reflected the reduced output of the region's industries and the general availability of materials and commodities, which made the holding of large inventories unnecessary and hazardous. These two developments reduced the amount of cash needed for working capital purposes, enabled corporate treasurers to repay some of their indebtedness and in other ways to improve their financial positions. The funding of bank debt into publicly offered securities during 1953 also accounts for part of the decline in the deposits of public utilities.

Retail and wholesale trade firms (including commodity dealers) held deposits totaling $718 million at the end of January this year, or 15.2 per cent of District deposit totals, a smaller share than held by this group last year. A desire to reduce excessive inventories in a buyer's market may account for part of the decline in trade firms' deposit holdings.

Financial businesses held an estimated $562 million of demand deposits on this year's survey date, or 11.9 per cent of District deposit totals. Demand balances held by financial businesses declined dollarwise and as a percentage of District totals during 1953. The marked decline in yields of long-term bonds and mortgages has placed institutional investors under heavy pressure to remain fully invested to meet contract and interest payments to their customers. Holdings of "all other accounts" (chiefly trust funds) declined during 1953 to a total of $128 million, or 2.7 per cent of District holdings.

Service and construction firms increased their dollar balances during 1953. They held an estimated total of $356 million at the end of January 1954 or 7.5 per cent of District deposits. The gains in deposits reflected increased activity in these lines. Consumer spending on services in the nation during the first quarter of 1954 was up $5 billion (seasonally adjusted annual rates) over the comparable 1953 first-quarter period, while consumption expenditures on durables and nondurable goods declined. Construction outlays in the first quarter of 1954 were up two per cent over year-ago levels.

Largest Banks Gain Deposits

The increase of one per cent in District holdings of demand deposits was not evenly distributed among banks of all size groups. The largest banks[2] scored a two per cent increase in deposit holdings, the large and medium banks showed no change, while the small banks

[1]Throughout this article the term deposits will refer to the demand deposits (dollar balances in checking accounts) of individuals, partnerships, and corporations at all commercial banks in the First Federal Reserve District.

[2]Small banks are classified for the survey as those with deposits of less than $1 million; medium banks hold deposits ranging from $1 million to $10 million; large banks, between $10 million and $100 million; and the largest banks hold deposits in excess of $100 million.

experienced a two per cent shrinkage of deposits. During 1952, the opposite movement took place, with the small banks registering greater increases than the largest banks.

One reason for the improved performance of the largest banks during 1953 as compared with 1952 lies in the change in Federal Reserve credit policy which occurred last year. A policy of restraint, in effect during 1952 and early 1953, bore relatively more heavily on large banks than on smaller institutions, because of the greater activity of large banks' business, and the smaller "free" reserve position on which they usually operate. The shift to a policy of ease, which occurred in the middle of 1953, benefited the larger banks, as their deposit totals rose.

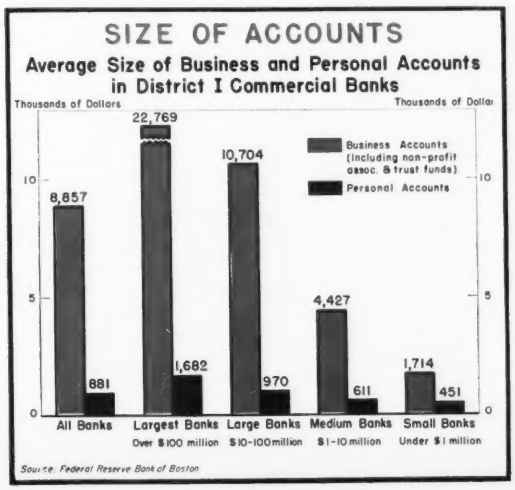
Size of Deposit Accounts

The average size of deposit accounts varied considerably among banks. Business accounts averaged $22,769 in the largest banks, $10,704 in large banks, $4,427 in medium banks, and only $1,714 in the small banks. Personal accounts generally were substantially smaller than business accounts and averaged $1,682 at the largest banks, $970 at large banks, $611 at medium banks, and $451 at small banks in January 1954. Farmers generally kept larger balances than other persons.

Depositors with special checking accounts, in which usually a flat charge per item is substituted for more elaborate service charges and minimum-balance requirements, generally kept small balances. The average size of special checking accounts ranged from $142 at the largest banks, to $177 at the small banks. Although the dollar volume of deposits held in special checking accounts was small, depositors favoring this form of banking service made up over 30 per cent of the total number of District depositors.

The majority of District depositors maintained small accounts. Eighty-eight per cent of depositors at the small banks held balances of less than $1,000. Even in the largest banks, only one-fourth of depositors kept accounts in excess of $1,000.

Although small deposits were many in number, they comprised a small percentage of deposit dollar totals.



Accounts of $1,000 or less held 26 per cent of deposits at small banks, 13 per cent at medium banks, seven per cent at large banks, and only four per cent at the largest banks. Depositors with balances in excess of $10,000 held 27 per cent of deposits at small banks, but they held 54 per cent of dollar totals at medium-sized banks, 71 per cent at large banks and 81 per cent at the largest banks.

A major share of the deposits of the larger banks was held in accounts of substantial size. Balances of $100,000 or over (largest classification analyzed in this survey) made up 3.3 per cent of the number of business accounts and 0.1 per cent of personal accounts at the largest banks, but constituted 56 per cent of their dollar totals.

Ownership of Demand Deposits

DEPOSIT OWNERSHIP BY SIZE OF BANK

Per Cent of Aggregate Demand Deposits
January 31, 1954

	Largest Banks	Large Banks	Medium Banks	Small Banks
Manufacturing and Mining	29.9	23.7	20.2	11.4
Public Utilities	3.9	3.1	2.5	1.9
Trade	11.9	15.6	19.3	17.2
Construction	1.8	2.0	2.8	2.1
All other nonfinancial	6.0	5.3	4.7	5.3
Total nonfinancial	**53.5**	**49.7**	**49.5**	**37.9**
Financial	14.5	13.5	6.5	4.0
Nonprofit associations	4.0	5.6	7.0	6.7
Total Personal	24.3	28.5	35.4	51.0
All other	3.7	2.7	1.6	0.4
Total Demand Deposits (per cent)	**100.0**	**100.0**	**100.0**	**100.0**
Total Demand Deposits (in millions of dollars)	**1,681.5**	**1,764.6**	**1,154.8**	**122.0**

Source: Federal Reserve Bank of Boston.

Business concerns, including nonprofit associations, and "all other accounts," owned about 71 per cent of all District demand deposits on January 31, 1954. Personal holdings varied considerably by size of bank, and ranged from 24 per cent of deposit totals at the largest banks to 51 per cent at the small banks. The distribution of ownership of deposits by size of bank is shown in an accompanying table.

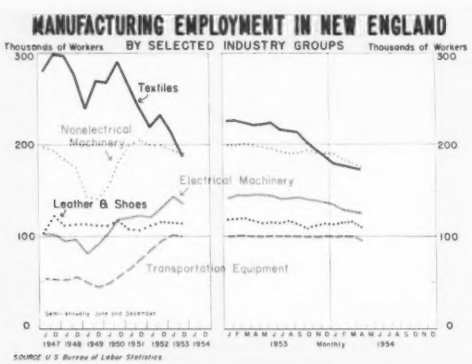
Depositor Preference

This analysis of deposit account size and ownership presents several indications of depositor preference as to size of bank. Industrial firms, financial businesses and public utilities require large working capital funds, and tend to keep their accounts in larger banks. One reason for this preference may be the sizable capital accounts of the larger banks, which enhance their lending power, and furnish added protection to depositors with large accounts. Another reason may be the special services which the larger financial institutions are able to render to industrial firms and public utilities, as a result of the diversity of their banking operations.

Retail and wholesale trade accounts exhibit no marked depositor preference, nor do those of construction firms and service enterprises. These businesses tend to carry on highly localized activities, and vary considerably in size so that all classifications of banks fare well as custodians of their deposit accounts.

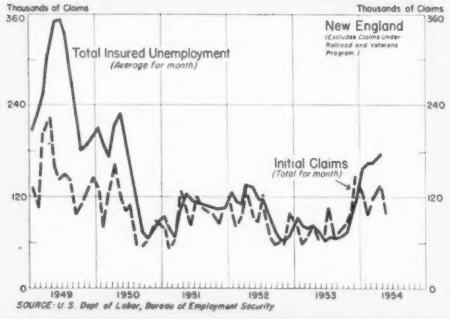
Small and medium banks which held 27 per cent of District demand balances had custody of 34 per cent of deposit dollars kept in personal checking accounts.

Business Conditions

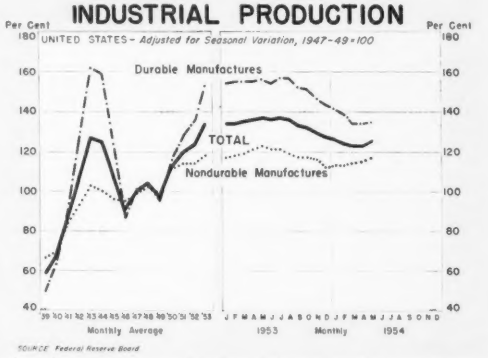


Manufacturing employment in the region declined about 2 per cent from mid-March to mid-April. Job losses were shared almost equally by producers of durable and nondurable goods. Seasonal factors were particularly strong in consumers' lines of nondurables.

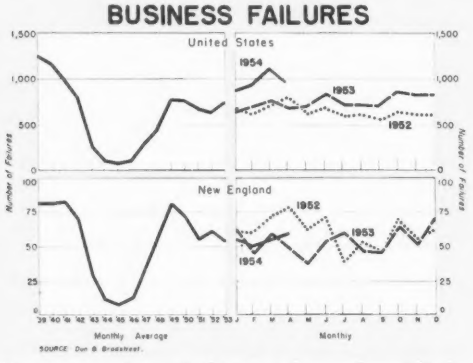
A strong seasonal expansion occurred in nonmanufacturing activities. With the exception of transportation and public utilities, all of the major categories expanded their working forces sufficiently during April to surpass year-ago figures.



After increasing for two months, initial claims for unemployment insurance in N. E declined 24 per cent from April to May. Total insured unemployment continued to rise in the region though the rate of increase has slackened since the first of the year.



In May the index of industrial production rose from 123 to 125, the first increase since last August. The May level was 9 per cent below the peak attained a year ago. Both durable and nondurable manufactures experienced small gains during the month.



For the second month this year the number of N. E. business failures in April rose above the corresponding month of 1953. April failures in the region were 7 per cent above the March rate, while in the nation April failures were down 11 per cent.

Seasonally adjusted sales at N. E. department stores rose 3 per cent in April after falling off in March and were less then 1 per cent below last year's volume. Stocks remained relatively high during the month but were 1 per cent below those at the end of April 1953.